

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Lawrence	County Van Buren
Fiscal Year End February 28, 2006	Opinion Date May 17, 2006	Date Audit Report Submitted to State August 31, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 61 Letter	
Certified Public Accountant (Firm Name) Seber Tans, PLC		Telephone Number 269-343-8180	
Street Address 555 West Crosstown Pky., Ste. 304		City Kalamazoo	State MI
		Zip 49008	
Authorizing CPA Signature <i>Matthew A Howard, CPA</i>		Printed Name Matthew Howard	
		License Number 1101013253	

VILLAGE OF LAWRENCE, MICHIGAN
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended February 28, 2006

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Lawrence, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of Village of Lawrence, Michigan (the Village) as of and for the year ended February 28, 2006, which collectively comprises the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of Village of Lawrence, Michigan as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2-5 and 30-35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan

May 17, 2006



Village of Lawrence
157 N. Paw Paw
P.O. Box 217
Lawrence Michigan 49064

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the Village as a whole as well as providing a view of the Village's longer-term finances. Fund financial statements show how services were financed in the short term and also show what remains for future spending.

The Village as a Whole

The Village's combined net assets showed a slight improvement during the 2005/2006 fiscal year. Factors contributing towards this slight improvement are found generally within the governmental activities of the Village. The table below shows a summary of the net assets at February 28:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 581,204	\$ 512,989	\$ 1,071,426	\$ 755,284	\$ 1,652,630	\$ 1,268,273
Capital assets	<u>353,330</u>	<u>334,644</u>	<u>2,911,067</u>	<u>3,027,979</u>	<u>3,264,397</u>	<u>3,362,623</u>
Total assets	934,534	847,633	3,982,493	3,783,263	4,917,027	4,630,896
Current liabilities	47,090	44,872	307,522	29,325	354,612	74,197
Noncurrent liabilities	<u>4,886</u>	<u>4,886</u>	<u>1,214,000</u>	<u>1,239,000</u>	<u>1,218,886</u>	<u>1,243,886</u>
Total liabilities	51,976	49,758	1,521,522	1,268,325	1,573,498	1,318,083
Net assets:						
Invested in capital assets, net of related debt	353,330	334,644	1,672,067	1,765,979	2,025,397	2,100,623
Restricted	126,328	111,985	---	---	126,328	111,985
Unreserved	<u>402,900</u>	<u>351,246</u>	<u>788,904</u>	<u>748,959</u>	<u>1,191,804</u>	<u>1,100,205</u>
Total net assets	<u>\$ 882,558</u>	<u>\$ 797,875</u>	<u>\$ 2,460,971</u>	<u>\$ 2,514,938</u>	<u>\$ 3,343,529</u>	<u>\$ 3,312,813</u>

In 2005 the Village hired its first Village Administrator to oversee the day to day operations of the Village. Although the addition of a Village Administrator has increased Village costs for maintaining such a position, it has also proven to be a needed asset to improving supervision of general operations within the Village as well as improving grant opportunities, improving collaboration with other municipal officials, increasing growth potential for the area, and providing a positive communication channel for Village elected officials.

The Village's Funds

The Village's financial system is required to be divided into five Funds for specific purposes and accountability of expenses incurred throughout the year. These funds are: General Fund, Water Fund, Waste Water Fund, Major Street Fund and Local Street Fund.

The General Fund pays for the majority of operating expenses the Village incurs such as administration, local police department operation (including salaries), general labor for areas of general fund activity, maintenance of the parks, building maintenance, DPW equipment purchase and maintenance, sidewalk maintenance, refuse disposal, office

equipment purchase and maintenance, holiday decorations, elections, zoning administration, etc. The General Fund also pays for other Fund balances that may have fallen short for various reasons.

The Water Fund pays for both minor and major repairs of the Village's water system as well as general maintenance of the system including administration, labor costs, spare parts inventory, electrical usage by the well pumps, security for the system, chemicals used in the treatment process, laboratory costs associated with DEQ requirements, etc. The Water Fund pays the General Fund for equipment use through a rental based program to help pay for required equipment originally purchased using funds from the General Fund.

The Waste Water Fund pays for both minor and major repairs of the Village's Waste Water system as well as general maintenance of the system including labor costs, spare parts inventory, electrical usage by the four lift stations, security for the system, chemicals used in the system, laboratory costs of discharging Waste Water associated with DEQ requirements, etc. The Waste Water Fund also pays the General Fund for equipment use based on a rental program to help pay for required equipment originally purchased using funds from the General Fund.

The Waste Water Fund is also required to pay back the Van Buren County Revolving Loan Fund for a low interest loan acquired to construct the Waste Water lagoon system currently in use.

The Major Street Fund pays for minor and major repairs of all streets classified as part of the Major Street System including storm drainage systems, administration, tree trimming and planting programs, etc. The Village receives funds monthly from the State of Michigan through the Act-51 funding system which is calculated by the state on a footage basis. The Major Street Fund also pays the General Fund for equipment use based on a rental program to help pay for required equipment originally purchased using funds from the General Fund.

The Local Street Fund pays for minor and major repairs of all streets classified as part of the Local Street System including storm drainage systems, administration, tree trimming and planting programs, etc. The Village receives funds monthly from the State of Michigan through the Act-51 funding system which is calculated by the state on a footage basis. The Local Street Fund also pays the General Fund for equipment use based on a rental program to help pay for required equipment originally purchased using funds from the General Fund.

Governmental Activities

A conservative estimate of budget revenues was made in light of possible cutbacks in State Revenue Sharing and Act-51 funds. Actual revenues were approximately 1.2% higher than originally budgeted at the beginning of FY 2005/2006. Throughout the year additional expenditures were approved which still kept the budgets in balance.

- a) The accumulated tax captured by the Local Development Funding Authority (LDFA), approximately \$18,000, was returned to the Village by direction of the LDFA to repay the Village's cost to build the Business Centre infrastructure.
- b) Additional revenue was realized due to maturing CDs being re-invested into higher yielding interest rate opportunities. These CDs were invested using a staggered maturity date sequence for future investment options.
- c) The Village was notified by the Michigan Department of Transportation (MDOT) that Critical Bridge Funds will be awarded to the Village for the replacement of the Brush Creek Bridge in 2005. This bridge is located on East St. Joseph Street. The estimated cost for the replacement project is \$528,000 and should be completed in 2006. The (MDOT) Critical Bridge Fund will cover 95% of the construction costs. Funding from the Van Buren County Task Force Tea-21 program will cover \$32,000 of the cost and the Village's Major Street Fund will cover the remaining \$116,000. An additional \$12,758 for engineering the project was spent in 2005. This project is scheduled to go for bid in June 2006 with a construction start date of September 2006.
- d) The Village continued supporting work completed by the Downtown Development Authority (DDA) to improve aesthetics in the district through grant programs for district residents and businesses financed through taxes captured within the district.
- e) The Village has also worked diligently with the LDFA to enhance growth within the Business Centre which will increase both Village tax base and local job opportunities for residents.

Business-Type Activities

The Village's business-type activity consists of the Water and Waste Water Funds. We provide Water and Waste Water services to 100% of the Village residents (Approximately 400 customers). We also provide Water and Waste Water services to a few residents living outside the Village limits who are Lawrence Township residents. The customers living in the Township receiving services pay a rate of 1-1/2 times the rate of a Village resident. The Van Buren Intermediate School System, located within the Village limits, is currently the largest user of the two systems.

- a) Revenues from the sale of Water and Sanitary Sewer were less than initially budgeted but within 3.1% of the anticipated amount. This can be attributed to resident and business conservation of water to save money on their Water and Sanitary Sewer bills.
- b) Substantial increases were realized from interest gained on invested Water and Sanitary Sewer CDs due to re-investing these CDs in better interest bearing accounts when they matured. They were also invested with staggered maturity dates which will allow for increased investment opportunities in the future. Positive Fund Balance in the Sanitary Sewer Fund was achieved by lower maintenance costs. Approximately \$35,000 of improvements to well #2 were postponed (Water Fund) and are not considered detrimental to the continued operation of the utility system.
- c) The Village received a Grant from the County Economic Development Corporation in the amount of \$9,000 to perform a Water Reliability Study and a Sanitary Sewer Capacity Study. These studies were performed; future improvements to better serve the community as a whole while anticipating future growth needs as outlined in the Village's Master Plan were included as recommendations.

Restrictions on Funds

No restrictions on funds have been imposed by the Village; any restrictions or other limitations come at the direction of the State and Federal Governments. There were no projects involving grant funds that remained to be closed out at the end of FY 2005/2006. The United States Department of Agriculture (USDA) Loan to the Water Fund was not closed out as of the end of FY 2005/2006.

Significant Budget Variances

Variances between the original budget and final budget greater than \$10,000 FY 2005/2006 included:

- a) Amendments to the General Fund as a result of prorating of the Office Clerk's salary and contracted services were meant to bring the budget amounts in line with stated actual costs. Reconciliation of the Funds of the Village will more accurately distribute these costs. This process will be completed after the close of the FY 2005/2006 budget and audit reporting. Significant General Fund amendments were made due to additional revenue and reduced expenses though out the year. The amended Police budget reflects the accounting practice of the Office Clerk in spreading the accounts payable. Reduced costs of nearly 23% were realized from the budgeted amount for police protection under contract with the Van Buren County Sheriff's Department due to staff reduction to one full time officer and one officer used during the summer months. These factors are not expected to have an impact on future service or liquidity.
- b) Anticipated transfers of operating funds from the General Fund to the Street Funds were not needed.
- c) The Major Street Fund was amended to reflect savings realized due to reduced costs for the Brush Creek Bridge project preliminary engineering during the year, as well as to reflect the accounting practice prorating of the Office Clerk salary when spreading the accounts payable expenditures.
- d) The Local Street Fund received additional revenue from the County Road Commission millage increasing it by 7% and expenses were reduced by 34% due to lower winter maintenance costs.
- e) The Water Fund was amended to reflect a revenue decrease by 1.3% which is attributed to residents conserving water; expenses were slightly less by 1.3% due to increased depreciation within the system.
- f) The Waste Water Fund was amended to reflect an estimated increase in revenue by 1.8%; expenditures were estimated to decrease by 26.8% due to lower maintenance costs.

Significant Assets or Long-Term Debt

During fiscal year 2005/2006, long-term department activity remains with the Water and Sanitary Sewer systems, with terms of 17 and 37 years remaining for repayment of the loans.

The Village's investment in capital assets for its governmental and business-type activities as of February 28 consisted of the following:

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 33,244	\$ 33,244	\$ ---	\$ ---	\$ 33,244	\$ 33,244
Infrastructure	206,276	157,377	4,575,541	4,593,320	4,781,817	4,750,697
Buildings and improvements	277,282	277,282	---	---	277,282	277,282
Equipment	142,917	142,917	137,215	137,215	280,132	280,132
Vehicles	105,777	105,777			105,777	105,777
Totals	<u>\$ 765,496</u>	<u>\$ 716,597</u>	<u>\$ 4,712,756</u>	<u>\$ 4,730,535</u>	<u>\$ 5,478,252</u>	<u>\$ 5,447,132</u>

In 2005, there was one commitment for capital expenditures by the Water Fund. This was for a new well at an estimated total cost of \$200,000. \$160,000 will be funded with a Michigan Economic Development (MEDC) Grant with a local match requirement of \$40,000 to come from the Water Fund. Funding for the project was secured from MEDC in late 2005. Engineering for this project was completed, reviewed, and approved by the Department of Environmental Quality. Construction is scheduled to begin in July 2006. Total expenses of \$17,800 were incurred in 2005.

Additional capital asset projects included pursuing funding from the Michigan Economic Development Corporation (MEDC) for a \$250,000 grant and the Van Buren County Economic Development Corporation Revolving Loan Fund (RLF) for a combined grant/loan amount of \$150,000 to fund a proposed elevated water storage tank to be constructed in the Lawrence-Crandall Business Centre. Estimated cost for this project is \$500,000. Total expenses of approximately \$1,000 were incurred for preliminary work for this project in 2005. It is anticipated additional funding will come from the Village's Water reserve funds needed to complete the project. The Village anticipates the funding to be in place from MEDC and the County RLF by mid Yr 2006; scheduled completion for the project would be late 2007.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Village's finances and to show the Village's accountability for the money it receives.

If you have any questions about this report or need additional information, we encourage you to contact the Village Hall at 269-674-8161 or inquire at the Village Hall, 157 N. Paw Paw Street, Lawrence, Michigan 49064 (P.O. Box 217).

VILLAGE OF LAWRENCE, MICHIGAN
STATEMENT OF NET ASSETS
February 28, 2006

	Primary Government			
	Governmental Activities	Business- Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 216,607	\$ 152,576	\$ 369,183	\$ 12,158
Investments and restricted cash	300,797	594,817	895,614	---
Accounts receivable	6,187	65,293	71,480	---
Taxes receivable	11,404	---	11,404	3,987
Internal balances	46,209	(46,209)	---	---
Inventory	---	38,275	38,275	---
Due from primary government	---	---	---	3,025
Capital assets - net	353,330	2,911,067	3,264,397	134,000
TOTAL ASSETS	\$ 934,534	\$ 3,715,819	\$ 4,650,353	\$ 153,170
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 44,065	\$ 9,373	\$ 53,438	\$ ---
Customer deposits	---	6,475	6,475	---
Due to component units	3,025	---	3,025	---
Noncurrent liabilities	---	---	---	---
Due within one year	---	25,000	25,000	---
Due in more than one year	4,886	1,214,000	1,218,886	---
TOTAL LIABILITIES	51,976	1,254,848	1,306,824	---
NET ASSETS				
Invested in capital assets, net of related debt	353,330	1,672,067	2,025,397	134,000
Restricted for:				
Streets	126,328	---	126,328	---
Unreserved	402,900	788,904	1,191,804	19,170
TOTAL NET ASSETS	882,558	2,460,971	3,343,529	153,170
TOTAL LIABILITIES AND NET ASSETS	\$ 934,534	\$ 3,715,819	\$ 4,650,353	\$ 153,170

See Notes to Financial Statement

VILLAGE OF LAWRENCE, MICHIGAN
STATEMENT OF ACTIVITIES
February 28, 2006

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Governmental Activities	Business-Type Activities	Totals	Component Units
Primary government						
Governmental activities:						
General government						
Public safety	\$ (100,049)	\$ 3,265	\$ (96,784)	\$ ---	\$ (96,784)	\$ ---
Public works	(93,576)	34	(93,542)	---	(93,542)	---
Interest	(174,536)	822	(173,714)	---	(173,714)	---
Depreciation (unallocated)	---	---	---	---	---	---
TOTAL GOVERNMENTAL ACTIVITIES	(30,213)	---	(30,213)	---	(30,213)	---
	(398,374)	4,121	(394,253)	---	(394,253)	---
Business-type activities						
Water	(235,302)	175,480	---	(59,822)	(59,822)	---
Sewer	(166,455)	154,343	---	(12,112)	(12,112)	---
TOTAL BUSINESS-TYPE ACTIVITIES	(401,757)	329,823	---	(71,934)	(71,934)	---
TOTAL PRIMARY GOVERNMENT	\$ (800,131)	\$ 333,944	\$ (394,253)	\$ (71,934)	\$ (466,187)	\$ ---
Component Units						
Downtown Development Authority	\$ (4,299)	\$ 1,147	\$ ---	---	\$ ---	\$ (3,152)
Local Development Finance Authority	(1,004)	---	---	---	---	(1,004)
TOTAL COMPONENT UNITS	\$ (5,303)	\$ 1,147	\$ ---	\$ ---	\$ ---	\$ (4,156)
GENERAL REVENUES:						
Property taxes			\$ 175,941	\$ ---	\$ 175,941	\$ 23,267
State shared revenue			225,650	---	225,650	---
Interest and investment income			8,112	8,274	16,386	---
Miscellaneous			51,233	9,693	60,926	---
Operating transfer in (out)			18,000	---	18,000	(18,000)
TOTAL GENERAL REVENUES AND TRANSFERS			478,936	17,967	496,903	5,267
INCREASE (DECREASE) IN NET ASSETS						
			84,683	(53,967)	30,716	1,111
Net assets at beginning of year			797,875	2,514,938	3,312,813	152,059
NET ASSETS AT END OF YEAR			\$ 882,558	\$ 2,460,971	\$ 3,343,529	\$ 153,170

See Notes to Financial Statement

VILLAGE OF LAWRENCE, MICHIGAN
COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS AND THE
RECONCILIATION TO THE STATEMENT OF NET ASSETS
February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Govern- Mental</u>
ASSETS				
Cash and cash equivalents	\$ 76,553	\$ 81,004	\$ 59,050	\$ 216,607
Investments	300,797	---	---	300,797
Accounts receivable	6,187	---	---	6,187
Taxes receivable	8,125	2,187	1,092	11,404
Due from other funds	66,843	---	---	66,843
TOTAL ASSETS	<u>\$ 458,505</u>	<u>\$ 83,191</u>	<u>\$ 60,142</u>	<u>\$ 601,838</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 30,420	\$ 12,659	\$ 986	\$ 44,065
Due to component units	3,025	---	---	3,025
Due to other funds	17,274	262	3,098	20,634
TOTAL LIABILITIES	<u>50,719</u>	<u>12,921</u>	<u>4,084</u>	<u>67,724</u>
FUND BALANCES				
Reserved for street services	---	70,270	56,058	126,328
Unreserved	407,786	---	---	407,786
TOTAL FUND BALANCES	<u>407,786</u>	<u>70,270</u>	<u>56,058</u>	<u>534,114</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 458,505</u>	<u>\$ 83,191</u>	<u>\$ 60,142</u>	<u>\$ 601,838</u>

**Reconciliation of the Combined Balance Sheet – Governmental Funds to the Statement of
Net Assets:**

Total governmental fund balances \$ 534,114

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported
in the funds:

The cost of the capital assets is	765,496	
Accumulated depreciation is	(412,166)	
		353,330

Long term liabilities that are not due and payable in the current period and are not reported in the funds:		(4,886)
--	--	---------

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 882,558**

See Notes to Financial Statements

VILLAGE OF LAWRENCE, MICHIGAN
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Govern- Mental</u>
REVENUES				
Property taxes	\$ 138,693	\$ 44,360	\$ 19,017	\$ 202,070
Licenses and permits	2,443	---	---	2,443
Intergovernmental revenues	127,181	75,566	22,903	225,650
Charges for service	4,121	---	---	4,121
Interest	5,509	1,834	769	8,112
Miscellaneous	81,325	100	---	81,425
TOTAL REVENUES	<u>359,272</u>	<u>121,860</u>	<u>42,689</u>	<u>523,821</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>18,000</u>	<u>---</u>	<u>---</u>	<u>18,000</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>377,272</u>	<u>121,860</u>	<u>42,689</u>	<u>541,821</u>
EXPENDITURES				
Current				
General government	100,197	---	---	100,197
Public safety	93,576	---	---	93,576
Public works	108,703	69,725	28,595	207,023
Capital outlay	2,500	46,399	---	48,899
TOTAL EXPENDITURES	<u>304,976</u>	<u>116,124</u>	<u>28,595</u>	<u>449,695</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>72,296</u>	<u>5,736</u>	<u>14,094</u>	<u>92,126</u>
Fund balances at beginning of year	<u>335,490</u>	<u>64,534</u>	<u>41,964</u>	<u>441,988</u>
FUND BALANCES AT END OF YEAR	<u><u>\$ 407,786</u></u>	<u><u>\$ 70,270</u></u>	<u><u>\$ 56,058</u></u>	<u><u>\$ 534,114</u></u>

See Notes to Financial Statements

VILLAGE OF LAWRENCE, MICHIGAN
RECONCILIATION OF THE COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended February 28, 2006

Net change in fund balance – total governmental funds	\$	92,126
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(30,213)	
Capital outlay	48,899	18,686

Assets are not available to pay for current period expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities:

Change in property taxes receivable		(26,129)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	84,683
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See Notes to Financial Statements

VILLAGE OF LAWRENCE, MICHIGAN
COMBINING STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
February 28, 2006

	Water Fund	Sewer Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 87,442	\$ 65,134	\$ 152,576
Investments and restricted cash	518,131	76,686	594,817
Accounts receivable	35,626	29,667	65,293
Due from other funds	17,274	203,191	220,465
Inventory	19,104	19,171	38,275
TOTAL CURRENT ASSETS	677,577	393,849	1,071,426
PROPERTY AND EQUIPMENT			
Water system	2,480,200	---	2,480,200
Sewer system	---	2,250,335	2,250,335
	2,480,200	2,250,335	4,730,535
Less accumulated depreciation	(776,141)	(1,043,327)	(1,819,468)
NET PROPERTY AND EQUIPMENT	1,704,059	1,207,008	2,911,067
TOTAL ASSETS	\$ 2,381,636	\$ 1,600,857	\$ 3,982,493
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 3,675	\$ 5,698	\$ 9,373
Customer deposits	6,475	---	6,475
Due to other funds	203,191	63,483	266,674
Current maturities of general obligation bonds payable	10,000	15,000	25,000
TOTAL CURRENT LIABILITIES	223,341	84,181	307,522
GENERAL OBLIGATION BONDS PAYABLE, net of current maturities	964,000	250,000	1,214,000
NET ASSETS			
Invested in capital assets, net of related debt	730,059	942,008	1,672,067
Unrestricted	464,236	324,668	788,904
TOTAL NET ASSETS	1,194,295	1,266,676	2,460,971
TOTAL LIABILITIES AND NET ASSETS	\$ 2,381,636	\$ 1,600,857	\$ 3,982,493

See Notes to Financial Statements

VILLAGE OF LAWRENCE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
ASSETS – PROPRIETARY FUNDS
For the Year Ended February 28, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 170,703	\$ 154,343	\$ 325,046
Late charges	3,717	---	3,717
Miscellaneous	1,541	120	1,661
Connection charges	810	---	810
Equipment rental	8,032	---	8,032
Other labor sales	250	---	250
TOTAL OPERATING REVENUES	<u>185,053</u>	<u>154,463</u>	<u>339,516</u>
OPERATING EXPENSES			
Depreciation	84,440	50,250	134,690
Contracted services	49,211	58,025	107,236
Equipment rental	15,610	21,248	36,858
Supplies	14,478	(182)	14,296
Operating labor costs	6,456	5,380	11,836
Utilities	6,285	5,199	11,484
Repairs and maintenance	2,774	5,126	7,900
Legal and accounting	3,724	3,544	7,268
Miscellaneous	4,825	1,733	6,558
Engineering	900	2,132	3,032
Printing & publishing	487	---	487
TOTAL OPERATING EXPENSES	<u>189,190</u>	<u>152,455</u>	<u>341,645</u>
OPERATING INCOME (LOSS)	(4,137)	2,008	(2,129)
NON-OPERATING INCOME (EXPENSE)			
Interest income	5,035	3,239	8,274
Interest expense	(46,112)	(14,000)	(60,112)
NET NON-OPERATING EXPENSE	<u>(41,077)</u>	<u>(10,761)</u>	<u>(51,838)</u>
DECREASE IN NET ASSETS	(45,214)	(8,753)	(53,967)
Net assets at beginning of year	<u>1,239,509</u>	<u>1,275,429</u>	<u>2,514,938</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,194,295</u></u>	<u><u>\$ 1,266,676</u></u>	<u><u>\$ 2,460,971</u></u>

See Notes to Financial Statements

VILLAGE OF LAWRENCE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For the Year Ended February 28, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from:			
Receipts from customers	\$ 177,175	\$ 156,665	\$ 333,840
Customer security deposits	150	---	150
Total cash received	<u>177,325</u>	<u>156,665</u>	<u>333,990</u>
Cash paid for:			
Contracted services	(49,211)	(58,025)	(107,236)
Engineering	(900)	(2,132)	(3,032)
Repairs and maintenance	(2,774)	(5,126)	(7,900)
Utilities	(6,285)	(5,199)	(11,484)
Legal and accounting	(3,724)	(3,544)	(7,268)
Supplies	(9,556)	(2,775)	(12,331)
Miscellaneous	(1,637)	3,965	2,328
Internal Payments to other funds	(24,582)	(26,671)	(51,253)
Total cash paid	<u>(98,669)</u>	<u>(99,507)</u>	<u>(198,176)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	78,656	57,158	135,814
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(17,779)	---	(17,779)
Interest paid on bond	(46,112)	(14,000)	(60,112)
Principal payments on bond	(8,000)	(15,000)	(23,000)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(71,891)	(29,000)	(100,891)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	5,035	3,239	8,274
Intvestment in certificates of deposit	(302,813)	(76,686)	(379,499)
NET CASH USED IN INVESTING ACTIVITIES	(297,778)	(73,447)	(371,225)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(291,013)	(45,289)	(336,302)
Cash and cash equivalents at beginning of year	<u>378,455</u>	<u>110,423</u>	<u>488,878</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 87,442</u></u>	<u><u>\$ 65,134</u></u>	<u><u>\$ 152,576</u></u>

See Notes to Financial Statements

VILLAGE OF LAWRENCE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS (CONTINUED)
For the Year Ended February 28, 2006

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ (4,137)	\$ 2,008	\$ (2,129)
Adjustments to reconcile operating income (loss) to cash used in operating activities:			
Depreciation	84,440	50,250	134,690
Decrease (increase) in:			
Accounts receivable	154	2,202	2,356
Inventory	4,922	(2,956)	1,966
Other assets	(10,548)	---	(10,548)
Increase in:			
Other payables	3,675	5,654	9,329
Customer deposits	150	---	150
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 78,656</u></u>	<u><u>\$ 57,158</u></u>	<u><u>\$ 135,814</u></u>

See Notes to Financial Statements

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE A – Summary of Significant Accounting Policies

The accounting policies of the Village of Lawrence, Michigan (the Village) are in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village.

Reporting Entity

The Village was incorporated as a general law village under act of the legislature approved March 24, 1869, and operates under a Council-President form of government. The Village provides highways and streets, water and sewer, parks and recreation, public improvement, planning and zoning, and general administrative services. Fire protection and quick response services are provided by the Township of Lawrence. Effective November 2002 police protection is provided through contract from the Sheriff of Van Buren County. The financial statements of the Village do not reflect the activity of the fire department or quick response service. Educational services are provided through the local school district, which is a separate entity.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Village and its component units. In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The individual component units discussed below are included in the Village's reporting entity because of their financial relationship with the Village.

Discretely Presented Component Units

The following component units are reported within the "component units" column in the combined financial statements. The discretely presented component units are entities that are legally separate from the Village, but for which the Village is financially accountable.

Downtown Development Authority (DDA)

The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of eight members, is recommended by the Village President and approved by the Village Council. In addition, the DDA's budget is subject to approval by the Village Council. The complete financial statements of the DDA are included within the Village's general purpose financial statements.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE A – Summary of Significant Accounting Policies (Continued)

Local Development Finance Authority (LDFA)

The LDFA was created to encourage local development, prevent conditions of unemployment, promote economic growth, and authorize the creation and implementation of development and financing plans in the Village. The LDFA's governing body, which consists of seven members, is recommended by the Village President and approved by the Village Council. In addition, the LDFA's budget is subject to approval by the Village Council. The complete financial statements of the LDFA are included within the Village's general purpose financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE A – Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Taxes Receivable

The Village's tax is levied on each July 1st on the taxable valuation of property (as defined by state statutes) located in the Village as of the preceding July 31st. Uncollected taxes are purchased by the County within 120 days following the close of the fiscal year of the tax levy. Uncollectible accounts are charged back to the Village by the County.

The 2005 taxable valuation of The Village totaled \$11,957,868, on which ad valorem taxes levied consisted of 11.21 mills for operating purposes, 2.98 mills for major street services, and 1.50 mills for local street services. These amounts are recognized in the respective General and Special Revenue financial statements as taxes receivable or as tax revenue.

Fund Based Statements

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Additionally, the Village reports the following major proprietary funds:

The Water Fund accounts for the activities of the water production and distribution system.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE A – Summary of Significant Accounting Policies (Continued)

The Sewer Fund accounts for the activities of the sewage collection and treatment system.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non operating items. Operating revenue and expenses generally result from providing water and sewer services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Taxes are levied on July 1st and are collected through February 28 by various local units for the Village. The local units then remit to the Village any delinquent real property taxes by June 30.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE A – Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Costs

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded as estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized.

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20-50 years
Building improvements	15-30 years
Water and sewer lines	40-50 years
Roads	10-30 years
Other infrastructure	5-20 years
Vehicles	3-5 years
Office equipment	5-7 years
Computer equipment	3-5 years

Compensated Absences

The liability for compensated absences reported in the government-wide statements consist of unpaid accumulated sick days and annual vacation balances. Vacation benefits accumulate on an employee's anniversary basis. Unused vacation cannot be carried forward to the employee's next year. Employees may accumulate a maximum of 60 days of sick leave. Unused vacation and fifty percent (50%) of sick leave benefits are paid upon termination of employment.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE A – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Contributed capital is recorded in proprietary funds for capital grants or contributions from customers or other funds.

Comparative Data/Reclassifications

Comparative data is not included in the Village's financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Village's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE B - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE B - Stewardship, Compliance, and Accountability (Continued)

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the December Village Council meeting, the Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to March 1st, the budget is legally adopted by the Village Council.
4. The Village President is authorized to transfer up to \$1,000 of budgeted amounts between activities within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Major Street Fund, Local Street Fund, and Water and Sewer Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Village's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the Village for these budgeted funds were adopted on the line item level.

The Village has one significant budget variance in the major street fund for capital outlay in the amount of \$46,399.

NOTE C – Cash and Investments

At February 28, 2006, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Govern- Mental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 216,607	\$ 152,576	\$ 369,183	\$ 12,158
Investments	300,797	594,817	895,614	---
TOTAL	<u>\$ 517,404</u>	<u>\$ 747,393</u>	<u>\$ 1,264,797</u>	<u>\$ 12,158</u>

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE C – Cash and Investments (Continued)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking, savings and money market accounts)	\$ 369,183	\$ 12,158
Investments (certificates of deposit)	895,614	---
TOTAL	<u><u>\$ 1,264,797</u></u>	<u><u>\$ 12,158</u></u>

Michigan Compiled Law authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council has designated one bank for deposit of the Village's funds. The investment policy adopted by the Village Council has authorized investments in bonds and securities of the United States government, bank accounts, and certificates of deposit, but not the remainder of State statutory authority as listed above.

The Village's deposits and investment policy are in accordance with statutory authority.

Cash deposits and investments are classified according to credit risk to give an indication of the level of risk assumed by the Village at February 28, 2006. The categories are described as follows:

Category 1: Insured or registered, or securities held by the Village or by its agent in the Village's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE C – Cash and Investments (Continued)

At February 28, 2006 the Village's bank balance in cash deposits including checking, savings, money market accounts, and investments in certificates of deposit was \$1,266,301, of which \$370,687 is reported as cash and cash equivalents, and \$895,614 is reported as investments which are certificates of deposits which mature in greater than three months. Of the bank balance \$100,000 is covered by federal depository insurance and \$1,166,301 was uninsured and uncollateralized. The component units' deposits had a bank balance of \$12,158 of which all was covered under federal depository insurance.

NOTE D – Capital Assets

Capital asset activity of the Village's governmental activities was as follows:

	March 1, 2005	Additions	Disposals	February 28, 2006
Capital assets not being depreciated:				
Land	\$ 33,244	\$ ---	\$ ---	\$ 33,244
Capital assets being depreciated:				
Parking lots	60,208	---	---	60,208
Paved recreational areas	5,882	---	---	5,882
Outside construction	73,233	---	---	73,233
Buildings and improvements	204,049	---	---	204,049
Equipment	142,917	---	---	142,917
Vehicles	105,777	---	---	105,777
Infrastructure	91,287	48,899	---	140,186
	683,353	48,899	---	732,252
Less accumulated depreciation	(381,953)	(30,213)	---	(412,166)
Net capital assets being depreciated	301,400	18,686	---	320,086
Governmental activities capital total – net of accumulated depreciation	\$ 334,644	\$ 18,686	\$ ---	\$ 353,330

Depreciation expense was not charged to activities as the Village considers its assets to impact multiple activities and allocation is not practical.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE D – Capital Assets (Continued)

Capital asset activity of the Village's proprietary fund type activities was as follows:

	March 1, 2005	Additions	Disposals	February 28, 2006
Capital assets being depreciated:				
Water supply system	\$ 1,748,974	\$ 17,779	\$ ---	\$ 1,766,753
Water mains	641,395	---	---	641,395
Water equipment	72,051	---	---	72,051
Sewer lagoon	1,499,858	---	---	1,499,858
Sewer lines	685,313	---	---	685,313
Sewer equipment	65,164	---	---	65,164
	<u>4,712,755</u>	<u>17,779</u>	<u>---</u>	<u>4,730,534</u>
Less accumulated depreciation	<u>(1,684,777)</u>	<u>(134,690)</u>	<u>---</u>	<u>(1,819,467)</u>
Net capital assets being depreciated	<u>\$ 3,027,978</u>	<u>\$ (116,911)</u>	<u>\$ ---</u>	<u>\$ 2,911,067</u>

Capital asset activity of the Village's component units was as follows:

	March 1, 2005	Additions	Disposals	February 28, 2006
Capital assets not being depreciated:				
Land	\$ 125,000	\$ ---	\$ ---	\$ 125,000
Capital assets being depreciated:				
Light poles	---	9,000	---	9,000
Less accumulated depreciation	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Net capital assets being depreciated	<u>---</u>	<u>9,000</u>	<u>---</u>	<u>9,000</u>
Capital total – net of accumulated depreciation	<u>\$ 125,000</u>	<u>\$ 9,000</u>	<u>\$ ---</u>	<u>\$ 134,000</u>

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE E – Interfund Receivables and Payables

The composition of interfund balances as of February 28, 2006, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Sewer Fund	\$ 63,483
	Major Street Fund	262
	Local Street Fund	3,098
Water Fund	General Fund	17,274
Sewer Fund	Water Fund	203,191
		<u>\$ 287,308</u>

Due to/from primary government and component units:

Receivable Fund	Payable Fund	Amount
Local Finance Development Authority	General Fund	\$ 5,248
General Fund	Downtown Development Authority	2,224
		<u>\$ 7,472</u>

NOTE F – Long-Term Debt

The individual fund long-term debt and other long-term obligations of the Village and the changes therein, are summarized as follows:

	Balance at March 1, 2005	Additions	Deductions	Balance at February 28, 2006
GOVERNMENTAL ACTIVITIES				
Compensated absences – sick leave	\$ 4,886	\$ ---	\$ ---	\$ 4,886
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 4,886</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 4,886</u>
PROPRIETARY FUNDS				
1981 general obligation bonds in the amount of \$520,000. Principal payments are due annually on January 1, with interest at 5% payable semi-annually.	\$ 280,000	\$ ---	\$ (15,000)	\$ 265,000
2002 revenue bonds in the amount of \$1,000,000. Principal payments are due annually on January 1, with interest at 4.75% payable semi-annually.	982,000	---	(8,000)	974,000
TOTAL PROPRIETARY FUNDS	<u>\$ 1,262,000</u>	<u>\$ ---</u>	<u>\$ (23,000)</u>	<u>\$ 1,239,000</u>

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE F – Long-Term Debt (Continued)

Annual debt service requirements to maturity for debt obligations are as follows:

Payments due for years ending February 28:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ --	\$ ---	\$ 25,000	\$ 59,515
2008	---	---	27,000	58,290
2009	---	---	27,000	56,970
2010	---	---	34,000	55,650
2011	---	---	35,000	53,985
2012	---	---	35,000	52,273
2013	---	---	36,000	50,560
2014	---	---	36,000	48,800
2015	---	---	36,000	47,040
2016	---	---	38,000	45,280
2017	---	---	38,000	43,425
2018	---	---	38,000	41,570
2019	---	---	40,000	39,715
2020	---	---	40,000	37,765
2021	---	---	22,000	35,815
2022	---	---	22,000	34,770
2023	---	---	24,000	33,725
2024	---	---	24,000	32,585
2025	---	---	26,000	31,445
2026	---	---	26,000	30,210
2027	---	---	28,000	28,975
2028	---	---	30,000	27,645
2029	---	---	32,000	26,220
2030	---	---	32,000	24,700
2031	---	---	36,000	23,180
2032	---	---	36,000	21,470
2033	---	---	38,000	19,760
2034	---	---	38,000	17,955
2035	---	---	40,000	16,150
2036	---	---	40,000	14,250
2037	---	---	42,000	12,350
2038	---	---	42,000	10,355
2039	---	---	44,000	8,360
2040	---	---	44,000	6,270
2041	---	---	44,000	4,180
2042	---	---	44,000	2,090
TOTAL PROPRIETARY FUNDS	\$ ---	\$ ---	\$ 1,239,000	\$ 1,153,298

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE F – Long-Term Debt (Continued)

1981 General Obligation Bonds

On March 11, 1981, the village entered into a contract with the Van Buren County Board of Public Works to finance, construct, and operate an improved sanitary sewage disposal system. The system is known as Van Buren County Sanitary Sewage Disposal System #6 (Village of Lawrence). The Village's share of the project of \$520,000 was financed by the sale of bonds through the County Agency. Federal and state grants were obtained to finance the remaining cost.

The Village will lease the system until such time as the bonds are paid in full. At that time, the Village will become the owner of the system. The lease cost will include the operation, maintenance, and management of the system, and the payment of the debt service requirement. The Village has assumed responsibility for payment of the bonds, as reflected on the balance sheet of the Sewer Fund.

These bonds are general obligations of the Village and require the use of tax moneys to meet principle and interest payments if necessary.

2002 General Obligation Bonds

On July 16, 2002 the Village issued a water and sanitary sewage collection use disposal revenue bond not to exceed \$1,000,000, for the purpose of paying part of the cost of acquiring and constructing water supply improvements to serve the Village. The bond is payable in annual installments due January 1st and repayment is not expected to exceed forty years. The bonds bear interest at 4.75% per annum calculated on the daily outstanding balance. Interest is payable semiannually and is paid on January 1 and July 1.

Accrued Vacation and Sick Leave Payable

The Village has accrued liabilities for accumulated vested sick leave benefits. See Note A for a description of the Village's accounting policies related to these items.

NOTE G – Employee Retirement and Benefit System

Plan Description

The Village participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full time employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at: 447 N. Canal Road, Lansing, Michigan 48917.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE G – Employee Retirement and Benefit System (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village's personnel policy, which does not require employees to contribute to the plan. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is zero percent of covered payroll.

Annual Pension Costs

For the year ended February 28, 2006, the Village's annual pension cost of zero for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal funding cost method. Significant actuarial assumptions used included an 8% investment rate of return, projected salary increases of 4.5% for base inflation, plus 0.0% to 4.16% for merit and longevity.

Three Year Trend Information

Three year trend information as of December 31, 2004 follows:

	2003	2004	2005
Annual pension cost	0	0	0
Percentage of APC contributed	100	100	100
Net pension obligation	0	0	0
Actuarial value of assets	129,965	133,943	140,414
Actuarial accrued liability	87,969	72,605	80,931
Unfunded (overfunded) AAL	(41,996)	(61,338)	(59,483)
Funded ratio	148	184	173
Covered payroll	21,174	21,989	21,174
UAAL as a percentage of covered payroll	0	0	0

NOTE H – Commitments and Contingencies

Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for death and disability, hospitalization and life claims, and is a member of the Michigan Municipal League Liability and Property Pool for claims relating to liability, fire, fleet and bonds. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Village participates in the Michigan Municipal Worker's Compensation Fund risk pools for the purpose of its workers compensation coverage.

VILLAGE OF LAWRENCE, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

NOTE H – Commitments and Contingencies (Continued)

The Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Grants and Contracts

The Village has been awarded funds from the Michigan Department of Transportation (MDOT) to replace a bridge within the Major Street fund limits. The total construction cost of the project is estimated at \$696,788, of which MDOT will pay 95%, the Village's anticipated cost of construction and engineering is approximately \$116,000.

The Village has been awarded a Michigan Community Development Block Grant in the amount of \$160,000 for the construction of a water well. The Village anticipates their portion of the construction of the well at approximately \$40,000. These funds are to be paid from the Water Fund.

The Village is pursuing the addition of a water tower to the water system. The estimated cost of the project is \$500,000. The Village is pursuing grants from the Michigan Economic Development Corporation in the amount of \$250,000 and a low interest loan from the Van Buren County Economic Development Corporation Revolving Loan Fund of \$150,000 any additional funds would be paid from the water fund.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF LAWRENCE, MICHIGAN
BUDGET COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Fav (Unfav)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 131,450	\$ 134,169	\$ 138,693	\$ 4,524
Licenses and permits	760	2,443	2,443	---
Intergovernmental revenues				
State shared revenues	135,000	132,315	126,108	(6,207)
Liquor license fees	1,400	1,073	1,073	---
	136,400	133,388	127,181	(6,207)
Charges for services				
Cable franchise fees	3,500	3,285	3,265	(20)
Ordinance fines	600	50	34	(16)
Charges for services rendered	5,700	2,800	822	(1,978)
	9,800	6,135	4,121	(2,014)
Interest	1,000	4,200	5,509	1,309
Miscellaneous				
Equipment rental	74,000	79,564	68,475	(11,089)
Refunds and rebates	2,600	4,021	3,921	(100)
Miscellaneous	3,000	8,345	8,929	584
	79,600	91,930	81,325	(10,605)
Other Financing Sources				
Operating transfers in	---	---	18,000	18,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 359,010	\$ 372,265	\$ 377,272	\$ 5,007
EXPENDITURES				
General government				
Village council				
Salaries	\$ 4,680	\$ 4,815	\$ 4,615	\$ 200
Payroll taxes	360	360	353	7
Memberships and dues	1,000	917	917	---
Conferences	400	135	135	---
Insurance	500	500	---	500
Miscellaneous	1,400	83	89	(6)
	8,340	6,810	6,109	701
President				
Salaries	1,560	1,560	1,560	---
Payroll taxes	120	120	119	1
Mileage	200	---	---	---
Training and Conferences	200	---	---	---
Miscellaneous	200	---	---	---
	2,280	1,680	1,679	1
Other executive activities				
Village Administrator	34,000	34,000	34,000	---
Contracted services	500	500	---	500
Accounting	1,000	1,000	225	775
Auditing	7,000	7,000	3,544	3,456
Budgeting	300	300	---	300
Legal	4,000	1,655	855	800
County computer	500	580	298	282
Insurance	17,500	14,882	14,882	---
Miscellaneous	---	571	571	---
	64,800	60,488	54,375	6,113

VILLAGE OF LAWRENCE, MICHIGAN
BUDGET COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Fav (Unfav)
	Original	Final	Actual	
Elections				
Printing and publishing	\$ 100	\$ ---	\$ ---	\$ ---
	100	---	---	---
Clerk				
Salary	2,400	2,400	2,000	400
Office salary	5,050	(9,150)	4,113	(13,263)
Deputy clerk salary	100	100	400	(300)
Payroll taxes	580	580	687	(107)
Dental insurance	182	836	838	(2)
Health insurance	3,003	6,788	7,023	(235)
Life insurance	130	722	572	150
M.E.R.S.	600	600	642	(42)
Vacation pay	424	1,831	1,832	(1)
Sick pay	195	163	81	82
Holiday pay	130	448	448	---
Postage and office supplies	1,200	757	796	(39)
Membership and dues	30	30	30	---
Mileage	100	---	---	---
Training and seminars	200	---	---	---
Printing and publishing	800	358	258	100
Insurance and bonds	100	---	---	---
Unemployment	---	3,328	3,328	---
Office equipment maintenance	600	610	610	---
Miscellaneous	500	633	637	(4)
	16,324	11,034	24,295	(13,261)
Treasurer				
Salary	1,200	1,200	1,200	---
Payroll taxes	100	100	92	8
Postage and office supplies	200	111	111	---
Insurance and bonds	150	---	---	---
	1,650	1,411	1,403	8
Village hall and grounds				
Hall-supplies	---	---	(43)	43
Contracted services	1,200	1,296	2,036	(740)
Utilities-telephone	1,650	1,830	1,862	(32)
Utilities-heat	9,120	9,000	6,691	2,309
Utilities-water and sewer	865	500	490	10
Repairs and maintenance	500	655	972	(317)
Equipment maintenance	500	---	---	---
Equipment rental	100	215	235	(20)
Miscellaneous	100	100	93	7
	14,035	13,596	12,336	1,260
Total general government	107,529	95,019	100,197	(5,178)

VILLAGE OF LAWRENCE, MICHIGAN
BUDGET COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended February 28, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Fav (Unfav)
	Original	Final		
Public safety				
Police				
Contracted services	\$ 90,000	\$ 83,304	\$ 81,105	\$ 2,199
Legal services	500	350	135	215
Telephone	2,400	1,800	1,765	35
Miscellaneous	500	---	---	---
	93,400	85,454	83,005	2,449
Fire protection				
Fire hydrant rent	6,760	6,760	6,760	---
Inspection department				
Postage/office supplies	50	---	---	---
Contracted services	2,400	2,400	---	2,400
Miscellaneous	100	113	113	--
	2,550	2,513	113	2,400
Planning commission				
Salaries	1,800	1,640	1,640	---
Payroll taxes	140	140	125	15
Contracted services	2,000	---	---	---
Workshops and conferences	500	140	140	---
Printing and publishing	300	300	40	260
Miscellaneous expenses	50	113	112	1
	4,790	2,333	2,057	276
Crossing guard				
Salaries	1,700	1,550	1,524	26
Payroll taxes	125	120	117	3
Worker's comp insurance	40	40	---	40
	1,865	1,710	1,641	69
Total public safety	109,365	98,770	93,576	5,194
Public works				
Department of public works				
Postage and office supplies	100	59	60	(1)
Operating supplies	2,000	3,360	6,681	(3,321)
Uniforms	600	300	220	80
Contracted services	37,200	---	---	---
Reallocation equip repairs	---	18,196	20,871	(2,675)
Reallocation garage lab	500	13,305	16,407	(3,102)
Reallocation shop time	500	500	---	500
Utilities and telephone	1,200	1,720	1,733	(13)
Mileage	100	---	---	---
Gas and oil	4,000	5,270	5,358	(88)
Street lights	14,000	14,000	12,843	1,157
Repairs and maintenance	2,000	3,200	3,733	(533)
Miscellaneous	300	---	---	---
Equipment acquisition	3,000	2,000	2,000	---
	65,500	61,910	69,906	(7,996)

VILLAGE OF LAWRENCE, MICHIGAN
BUDGET COMPARISON SCHEDULE – GENERAL FUND
For the Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Fav (Unfav)</u>
	<u>Original</u>	<u>Final</u>		
Sidewalks				
Contracted services	\$ 1,500	\$ 1,211	\$ 842	\$ 369
Repairs and maintenance	10,000	10,000	5,331	4,669
Equipment rental	750	750	499	251
Miscellaneous	100	---	---	---
	<u>12,350</u>	<u>11,961</u>	<u>6,672</u>	<u>5,289</u>
Sanitation				
Contracted services	6,500	4,793	4,796	(3)
Equipment rental	2,000	2,000	1,608	392
Miscellaneous	100	1,268	1,268	---
	<u>8,600</u>	<u>8,061</u>	<u>7,672</u>	<u>389</u>
Village park				
Operating supplies	300	352	362	(10)
Contracted services	15,500	14,684	14,691	(7)
Tree planting and trimming	1,000	1,000	1,000	---
Christmas décor	1,000	1,095	1,096	(1)
Repairs and maintenance	900	341	425	(84)
Equipment rental	6,000	6,974	6,838	136
Miscellaneous	200	41	41	---
	<u>24,900</u>	<u>24,487</u>	<u>24,453</u>	<u>34</u>
Library				
Contracted services	200	200	---	200
	<u>200</u>	<u>200</u>	<u>---</u>	<u>200</u>
Total public works	111,550	106,619	108,703	(2,084)
Capital outlay	<u>2,900</u>	<u>2,500</u>	<u>2,500</u>	<u>---</u>
TOTAL EXPENDITURES	<u>331,344</u>	<u>302,908</u>	<u>304,976</u>	<u>(2,068)</u>
EXCESS OF REVENUES OVER EXPENDITURES	27,666	69,357	72,296	2,939
Fund balance, beginning of year	<u>335,490</u>	<u>335,490</u>	<u>335,490</u>	<u>---</u>
FUND BALANCE, END OF YEAR	<u>\$ 363,156</u>	<u>\$ 404,847</u>	<u>\$ 407,786</u>	<u>\$ 2,939</u>

VILLAGE OF LAWRENCE, MICHIGAN
BUDGET COMPARISON SCHEDULE – MAJOR STREET FUND
For the Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Fav (Unfav)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 40,000	\$ 40,308	\$ 44,360	\$ 4,052
Intergovernmental revenues	81,300	81,623	75,566	(6,057)
Interest	500	2,099	1,834	(265)
Miscellaneous	100	67	100	33
TOTAL REVENUES	<u>121,900</u>	<u>124,097</u>	<u>121,860</u>	<u>(2,237)</u>
EXPENDITURES				
Bridges	34,550	---	46,399	(46,399)
Routine maintenance	68,700	52,899	49,638	3,261
Tree trimming	2,500	2,250	2,250	---
Traffic services	800	1,805	1,663	142
Winter maintenance	23,500	17,553	11,491	6,062
Administration	5,371	5,313	4,683	630
TOTAL EXPENDITURES	<u>135,421</u>	<u>79,820</u>	<u>116,124</u>	<u>(36,304)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,521)	44,277	5,736	(38,541)
FUND BALANCE AT BEGINNING OF YEAR	<u>64,534</u>	<u>64,534</u>	<u>64,534</u>	<u>---</u>
FUND BALANCE AT END OF YEAR	<u>\$ 51,013</u>	<u>\$ 108,811</u>	<u>\$ 70,270</u>	<u>\$ (38,541)</u>

VILLAGE OF LAWRENCE, MICHIGAN
BUDGET COMPARISON SCHEDULE – LOCAL STREET FUND
For the Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Fav (Unfav)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 19,500	\$ 19,969	\$ 19,017	\$ (952)
Intergovernmental revenues	22,962	21,349	22,903	1,554
Interest	100	771	769	(2)
TOTAL REVENUES	<u>42,562</u>	<u>42,089</u>	<u>42,689</u>	<u>600</u>
EXPENDITURES				
Road construction	---	---	(17)	17
Routine maintenance	23,100	20,969	19,969	1,000
Tree trimming	2,000	1,650	1,650	---
Traffic services	400	---	---	---
Winter maintenance	14,000	5,866	3,930	1,936
Administration	2,472	2,372	3,063	(691)
TOTAL EXPENDITURES	<u>41,972</u>	<u>30,857</u>	<u>28,595</u>	<u>2,262</u>
EXCESS OF REVENUES OVER EXPENDITURES	590	11,232	14,094	2,862
FUND BALANCE AT BEGINNING OF YEAR	<u>41,964</u>	<u>41,964</u>	<u>41,964</u>	<u>---</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 42,554</u></u>	<u><u>\$ 53,196</u></u>	<u><u>\$ 56,058</u></u>	<u><u>\$ 2,862</u></u>

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2006

To the Village Council
Village of Lawrence, Michigan

In planning and performing our audit of the financial statements of Village of Lawrence for the year ended February 28, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls. However, we noted the following reportable conditions that we believe to be material weaknesses.

Segregation of Duties

The clerk has the following incompatible duties (1) prepares invoices sent to water and sewer customers, (2) prepares the daily bank deposit slip, and (3) posts customer payments to the accounts receivable subsidiary ledger. Allowing these duties to be performed by one individual increases the risk that errors or fraud may occur and go undetected. This risk is further increased because the Village accepts cash payments from customers.

We recommend that the Village discontinue the policy of accepting cash. Additionally, the payments received from customers should be opened and deposited by individuals independent of the accounts receivable function. Alternatively, we recommend that management consider using a lockbox system for processing receipts. Under the lockbox system, customers are requested, via notations on invoices or monthly statements or the use of preaddressed envelopes, to send

their payments to a post office box, which is accessible only by the Village's bank. Each day, the bank collects receipts from the post office box, credits the receipts to the Village's bank account, and sends copies of all check stubs, remittance advices, and other communications to the Village for processing. As employees have no direct contact with negotiable instruments, the risk of fraud is significantly reduced. We recognize that the cost must be weighed against the expected benefits.

We also noted the following reportable conditions that are not believed to be material weaknesses.

Month-End Closing Procedures

As a result of our audit we proposed more than 70 adjusting journal entries, the effect of which was to decrease current year results of operations and fund balances by approximately \$142,000. Substantially all of the entries proposed were to correct bookkeeping errors or to make required accruals and other adjustments that we believe should have been recorded by management. We believe that a review and evaluation of transactions and proper month-end closing procedures (including reconciliations) would significantly increase the accuracy and timeliness of monthly financial information.

Records of Component Units of Government

We believe that, at present, the Downtown Development Authority does not maintain an adequate set of financial records. Certain receipts and disbursements are recorded on schedules; however, such transactions are not summarized in a general ledger, nor are all transactions recorded on the books. Such a system does not permit the preparation of accurate and reliable financial statements. The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing its decision on incomplete and/or inaccurate information during the year, and excessive time is spent at year end in preparing and auditing the financial statements.

These material weaknesses and other reportable conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2006 financial statements, and this report does not affect our report on those financial statements dated May 17, 2006. We have not considered internal control since the date of our report.

This report is intended solely for the information and use of the Village Council, management, and other within the Village and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Seber Tans, PLC

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2006

To the Village Council
Village of Lawrence, Michigan

We have audited the financial statements of Village of Lawrence, Michigan (the Village) as of and for the year ended February 28, 2006, and have issued our report thereon dated May 17, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States

As stated in our engagement letter dated March 25, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the historic value of fixed assets and the related

accumulated depreciation required by GASB Statement No. 34, as well as depreciation expense recorded for the year under audit.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed, and management recorded, numerous adjustments caused by mispostings and accruals not made by the Village.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principals and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed for the following reason:

- Incomplete or inaccurate accounting required a large number of significant audit adjustments to be proposed.

This information is intended solely for the use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Seber Tans, PLLC
Seber Tans, PLC